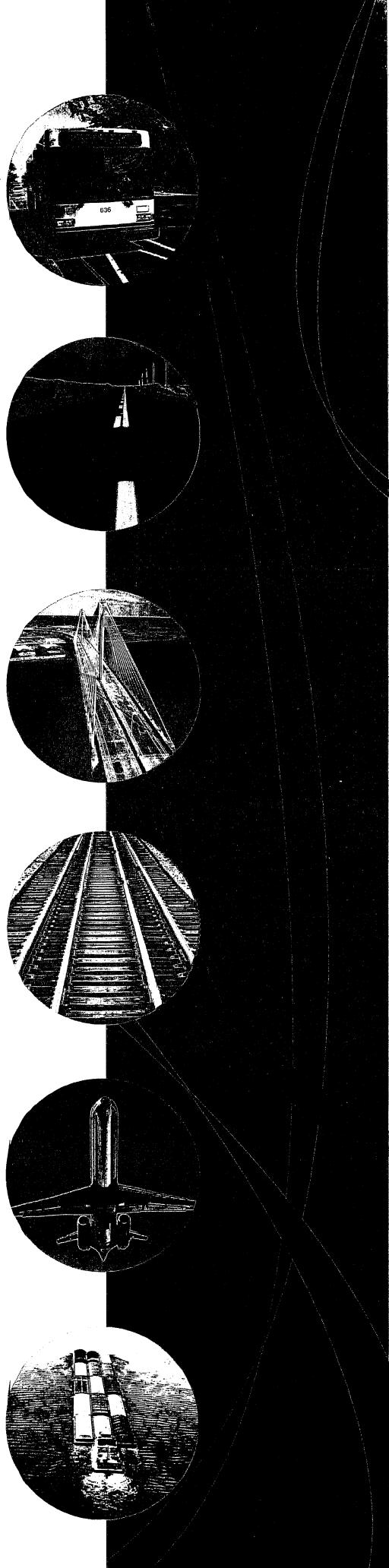


# Comprehensive Annual Financial Report

for the year ended  
**June 30, 2008**

 **MTFC**  
Missouri Transportation  
Finance Corporation

A component unit of the  
State of Missouri





# Comprehensive Annual Financial Report

for the year ended  
**June 30, 2008**

Roberta Broeker, Executive Director  
Brenda Morris, Treasurer  
Missouri Transportation Finance Corporation  
PO. Box 270  
Jefferson City, Missouri 65102  
573.526.8106



**Missouri Transportation  
Finance Corporation**

A component unit of the  
State of Missouri



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# Introductory Section

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## Missouri Transportation Finance Corporation

P.O. Box 270  
Jefferson City, Missouri 65102  
573.526.8106  
fax 573.526.2819

August 26, 2008

Board of Directors  
Missouri Transportation Finance Corporation  
Jefferson City, Missouri

The Missouri Transportation Finance Corporation (MTFC) is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the MTFC for the fiscal year ended June 30, 2008. The CAFR is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, the MTFC organizational chart, and a list of principal officials. The Financial Section includes the independent auditors' reports, management's discussion and analysis, basic financial statements, and notes to the financial statements. The Statistical Section includes additional financial information and transportation data presented on a multi-year comparative basis.

The Transportation Equity Act of the Twenty-first Century (TEA-21) Cooperative Agreement between the Federal Highway Administration, the Federal Transit Administration, and the Federal Railroad Administration, agencies of the United States Department of Transportation, the Missouri Highways and Transportation Commission (MHTC), and the MTFC requires the MTFC to have an annual independent financial and compliance audit of the MTFC. In fulfillment of this requirement, the MTFC prepared this CAFR, and contracted with the independent auditing firm of Williams Keepers, LLC to audit the financial statements.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MTFC's MD&A can be found immediately following the report of the independent auditors, beginning on page 17.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the MTFC. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the MTFC's financial position and results of operations. All disclosures necessary to enable the reader to gain an understanding of the MTFC's financial activities have been included.

### **Profile of the MTFC**

The MTFC is a not-for-profit corporation focused on funding Missouri highway and transportation projects by offering financing options such as low interest direct loans to private and public entities. The authority to form and operate the MTFC is initially derived from the TEA-21. The MTFC incorporated in August 1996, adopted bylaws and subsequently entered into the Cooperative Agreement referred to in paragraph two above. The MTFC was originally capitalized with a mixture of federal and state funds. An eight member Board of Directors administers the MTFC. The Board is responsible for the direction of the MTFC and approves all loans.

### **Economic Outlook**

The current state of transportation funding is uncertain. Rising fuel costs are beginning to reduce the number of miles Missourians travel, which results in less fuel being purchased and less gas tax being collected. Gas tax is the primary source of funding for transportation projects in Missouri. The Missouri Department of Transportation's (MoDOT) state fuel tax receipts declined in May, June and July of 2008 as compared with the same months of the previous year. In addition, the Federal Highway Trust Fund has an estimated deficit between \$3.3 and \$5.3 billion dollars, which could mean a reduction in federal funding for Missouri highway and transportation projects of between \$250 and \$360 million.

Various funding options historically sought by public and private entities for highway and transportation projects are no longer available or will not be available for several years. The reduction of funding options has increased interest in MTFC loans. The ability of the MTFC to meet this rising demand hinges on the amount of available funding for loans. The MTFC continues to explore options for additional capitalization.

### **Initiatives**

The Missouri Department of Transportation's Resource Management staff is responsible for marketing MTFC loans as a transportation project funding option. They accomplish this activity by:

- Maintaining information about the MTFC on the Partnership Development Website,
- Attending, presenting, and exhibiting at local government and economic development conferences,
- Educating partners,
- Preparing newsletters to communicate activity to potential customers.

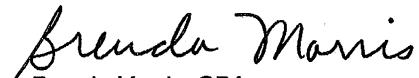
### **Acknowledgements**

The timely preparation of this report was achieved by the dedicated service of the Missouri Department of Transportation's Resource Management and Controller's Division staff who are responsible for MTFC administrative activities. We would like to express appreciation to members of the staff who assisted and contributed to this report.

Sincerely,



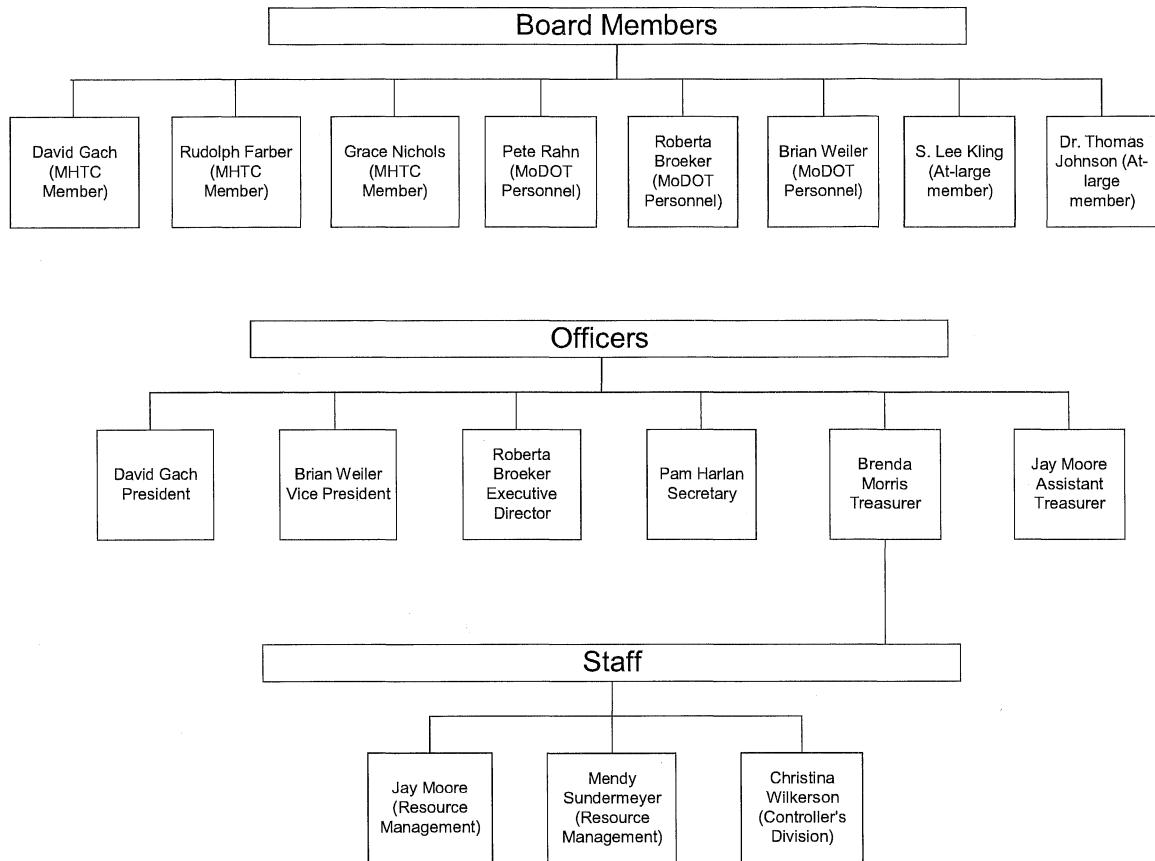
Roberta Broeker, CPA  
Executive Director



Brenda Morris, CPA  
Treasurer

# Organizational Chart

June 30, 2008



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# Principal Officials

Fiscal Year 2008

| <u>MTFC Title</u>   | <u>Name</u>     | <u>MoDOT Title</u>               |
|---------------------|-----------------|----------------------------------|
| President           | David Gach      | MHTC Commissioner                |
| Vice President      | Brian Weiler    | Multimodal Director              |
| Executive Director  | Roberta Broeker | Chief Financial Officer          |
| Secretary           | Pam Harlan      | Secretary to the MHTC Commission |
| Treasurer           | Brenda Morris   | Resource Management Director     |
| Assistant Treasurer | Jay Moore       | Financial Resource Administrator |

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# Financial Section

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Missouri Transportation Finance Corporation  
Jefferson City, Missouri

We have audited the accompanying financial statements of the business-type activities of the Missouri Transportation Finance Corporation (the Corporation), a component unit of the State of Missouri, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Corporation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the business-type activities of the Corporation as of June 30, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 19 through 21 are not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the Corporation's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

We did not audit the information included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

*Williams-Keepers LLC*

August 25, 2008

# Management's Discussion and Analysis

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# Management's Discussion and Analysis

The following section of our annual financial report presents our discussion and analysis of the MTFC's financial performance during the year. It is intended to provide an objective and easily readable analysis of the MTFC's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the information presented in the financial statements and notes, which follow this section.

## FINANCIAL HIGHLIGHTS

- During fiscal year 2008, the MTFC approved three loans totaling \$10.3 million. Disbursement of these loans is scheduled for fiscal year 2009. This amount is significantly less than fiscal year 2007 when 14 loans totaling \$95.8 million were approved.
- Disbursements totaling \$8.1 million for four loans were made in fiscal year 2008. In fiscal year 2007, two loans totaling \$7.4 million were disbursed.
- In fiscal year 2008, two entities with approved loans totaling \$4.5 million determined they did not need the loans.
- Operating income increased \$165,000 as a result of an increase in interest income on outstanding loans.
- The MTFC's net loans receivable decreased \$6.7 million as loan repayments exceeded loan disbursements.
- Net non-operating revenues decreased \$539,000, 18.3 percent, from fiscal year 2007. The decrease was primarily due to the reduction in the fair value of investments.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the MTFC's basic financial statements, which are comprised of two components: 1) financial statements and 2) notes to the financial statements.

**Financial Statements** report information about the MTFC through accounting methods used by private-sector companies, the economic resources measurement focus and accrual basis of accounting. These statements provide long-term and short-term information about the financial status of the MTFC.

The *Statements of Net Assets* include all MTFC assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the MTFC is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Assets* account for all revenues and expenses of the MTFC as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *Statements of Cash Flows* provide readers the sources of cash, uses of cash, and the changes in the cash balance during the year.

**Notes to the Financial Statements** provide additional information and discuss particular accounts in more detail. The Notes are essential to a full understanding of the data provided in the financial statements.

**FINANCIAL ANALYSIS****Table 1****MTFC Net Assets**  
**June 30, 2008 and 2007**  
**(dollars in thousands)**

|  | <u>2008</u>      | <u>2007</u>      |
|--|------------------|------------------|
| <b>Assets</b>                                |                  |                  |
| Unrestricted cash and investments            | \$ 9,503         | \$ 8,681         |
| Restricted cash and investments              | 46,257           | 48,867           |
| Restricted committed investments             | 11,718           | ---              |
| Interest receivable on loans and investments | 896              | 727              |
| Loans receivable, net                        | <u>17,835</u>    | <u>24,513</u>    |
| <b>Total Assets</b>                          | <u>86,209</u>    | <u>82,788</u>    |
| <b>Liabilities</b>                           |                  |                  |
| Due to Missouri Department of Transportation | 4                | 7                |
| <b>Net Assets</b>                            |                  |                  |
| Restricted for lending purposes              | 76,311           | 73,852           |
| Unrestricted net assets                      | <u>9,894</u>     | <u>8,929</u>     |
| <b>Total Net Assets</b>                      | <u>\$ 86,205</u> | <u>\$ 82,781</u> |

**Assets**

Restricted cash and investments and restricted committed investments increased \$9.1 million. Restricted committed investments are those investments set aside for executed loans with multiple disbursements, where the first disbursement has been made. Net loan receivables decreased \$6.7 million as loan repayments exceeded loan disbursements. One loan in the amount of \$7.4 million was repaid prior to its maturity.

**Net Assets**

As shown in table 1, net assets increased \$3.4 million in fiscal year 2008 from 2007. This increase results primarily from \$1.0 million in loan interest and \$2.4 million in investment earnings.

**Table 2**

**MTFC Changes in Net Assets**  
**Years ended June 30, 2008 and 2007**  
**(dollars in thousands)**

|   | <b>2008</b>      | <b>2007</b>      |
|---|------------------|------------------|
| <b>Operating revenues</b>                     |                  |                  |
| Interest income                               | \$ 1,064         | \$ 913           |
| Other income                                  | 6                | 5                |
| <b>Total operating revenues</b>               | <u>1,070</u>     | <u>918</u>       |
| <b>Operating expenses</b>                     |                  |                  |
| Personnel                                     | 33               | 45               |
| Other operating expenses                      | 15               | 16               |
| <b>Total operating expenses</b>               | <u>48</u>        | <u>61</u>        |
| <b>Nonoperating revenues, net of expenses</b> | <u>2,402</u>     | <u>2,941</u>     |
| <b>Net income</b>                             | 3,424            | 3,798            |
| Net assets at beginning of year               | <u>82,781</u>    | <u>78,983</u>    |
| <b>Net assets at end of year</b>              | <u>\$ 86,205</u> | <u>\$ 82,781</u> |

**Revenues**

In fiscal year 2008, the MTFC's primary sources of income included interest earned on loans and earnings on investments. Interest income on loans recognized as operating revenue increased \$151,000 from the previous year, as the balance of net loan receivables did not decline until late in the fiscal year. Non-operating revenue, both interest and increases in fair value of investments, is recognized on investments that are available for funding purposes. As referenced in Table 2, fiscal year 2008 net nonoperating revenues totaled \$2.4 million, a decrease of \$539,000 from the previous fiscal year primarily because of decreasing fair values on investments.

**Expenses**

In fiscal year 2008, operating expenses totaled \$48,000, a decrease of \$13,000 from the previous fiscal year. Personnel costs decreased \$12,000 due to fewer hours being spent on MTFC activities because of staff turnover. Professional fees increased \$1,000 due to increased audit costs, while other operating expenses decreased \$2,000. The overall decrease is due to reduced travel, training, and other costs related to these activities.

**ECONOMIC AND OTHER FACTORS**

The MTFC is an option for financing transportation projects. The Corporation expects a continuing increase in loan demand and, to satisfy the potential increased demand, the MTFC will continue to explore options for additional capitalization. The MTFC will manage cash flows to administer the loan commitments and, to the extent funds are available, any additional loan requests in future fiscal years.

**CONTACTING THE MTFC**

This financial report is designed to provide the Missouri Transportation Finance Corporation's interested parties, including citizens, taxpayers, customers, potential investors and creditors, with a general overview of the MTFC's finances and to demonstrate the MTFC's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to Missouri Transportation Finance Corporation, P.O. Box 270, Jefferson City, Missouri 65102.

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# Financial Statements

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# Statements of Net Assets

June 30, 2008 and 2007

|                                      | <u>2008</u>          | <u>2007</u>          |
|--------------------------------------|----------------------|----------------------|
| <b>Assets</b>                        |                      |                      |
| Current assets:                      |                      |                      |
| Cash and cash equivalents            | \$ 2,837,657         | \$ 1,207,699         |
| Investments                          | 6,665,143            | 7,473,729            |
| Restricted cash and cash equivalents | 902,178              | 1,076,185            |
| Restricted investments               | 36,293,560           | 43,178,250           |
| Restricted committed investments     | 4,597,035            | ---                  |
| Interest receivable on loans         | 394,999              | 254,486              |
| Interest receivable on investments   | 501,395              | 472,251              |
| Loans receivable, net                | <u>8,072,595</u>     | <u>7,306,950</u>     |
| Total current assets                 | 60,264,562           | 60,969,550           |
| Noncurrent assets:                   |                      |                      |
| Restricted investments               | 9,061,115            | 4,612,217            |
| Restricted committed investments     | 7,120,983            | ---                  |
| Loans receivable, net                | <u>9,762,593</u>     | <u>17,206,511</u>    |
| Total noncurrent assets              | 25,944,691           | 21,818,728           |
| <b>Total Assets</b>                  | <u>86,209,253</u>    | <u>82,788,278</u>    |
| <b>Liabilities</b>                   |                      |                      |
| Accounts payable                     | <u>4,283</u>         | <u>7,239</u>         |
| <b>Net Assets</b>                    |                      |                      |
| Restricted for lending purposes      | 76,311,454           | 73,852,364           |
| Unrestricted net assets              | <u>9,893,516</u>     | <u>8,928,675</u>     |
| <b>Total Net Assets</b>              | <u>\$ 86,204,970</u> | <u>\$ 82,781,039</u> |

# Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

|   | <u>2008</u>                 | <u>2007</u>                 |
|---|-----------------------------|-----------------------------|
| <b>Operating Revenues</b>                     |                             |                             |
| Interest income on loans                      | \$ 1,063,983                | \$ 912,661                  |
| Program fees                                  | <u>5,624</u>                | <u>5,355</u>                |
| <b>Total Operating Revenues</b>               | <u><u>1,069,607</u></u>     | <u><u>918,016</u></u>       |
| <b>Operating Expenses</b>                     |                             |                             |
| Personnel                                     | 33,003                      | 45,167                      |
| Professional fees                             | 9,000                       | 7,540                       |
| Travel and training                           | 1,254                       | 4,454                       |
| Other   | 4,803                       | 4,265                       |
| <b>Total Operating Expenses</b>               | <u><u>48,060</u></u>        | <u><u>61,426</u></u>        |
| <b>Operating Income</b>                       | <u><u>1,021,547</u></u>     | <u><u>856,590</u></u>       |
| <b>Nonoperating Revenue (Expenses)</b>        |                             |                             |
| Interest income on deposits                   | 114,021                     | 230,797                     |
| Investment earnings                           | 1,513,220                   | 1,370,808                   |
| Net appreciation in fair value of investments | 831,849                     | 1,394,810                   |
| Investment fees                               | <u>(56,706)</u>             | <u>(55,264)</u>             |
| <b>Net Nonoperating Revenues</b>              | <u><u>2,402,384</u></u>     | <u><u>2,941,151</u></u>     |
| <b>Net Income</b>                             | <u><u>3,423,931</u></u>     | <u><u>3,797,741</u></u>     |
| <b>Net Assets, beginning of year</b>          | <u><u>82,781,039</u></u>    | <u><u>78,983,298</u></u>    |
| <b>Net Assets, end of year</b>                | <u><u>\$ 86,204,970</u></u> | <u><u>\$ 82,781,039</u></u> |

# Statements of Cash Flows

Years Ended June 30, 2008 and 2007

|   | <u>2008</u>                | <u>2007</u>                |
|---|----------------------------|----------------------------|
| <b>Cash Flows From Operating Activities:</b>  |                            |                            |
| Interest received on loans  | \$ 923,470                 | \$ 1,370,878               |
| Fees received for services  | 5,624                      | 5,355                      |
| Loan disbursements  | (8,102,481)                | (7,424,451)                |
| Principal received  | 14,780,754                 | 12,695,569                 |
| Other payments  | (15,057)                   | (16,259)                   |
| Payments made to MoDOT for personnel services   | (35,959)                   | (42,686)                   |
| Net cash provided by operating activities   | <u>7,556,351</u>           | <u>6,588,406</u>           |
| <b>Cash Flows From Investing Activities:</b>  |                            |                            |
| Interest on deposits  | 114,021                    | 230,797                    |
| Interest on investments   | 1,484,076                  | 1,194,695                  |
| Sale of investments   | 475,934,371                | 436,058,488                |
| Purchase of investments   | (483,576,162)              | (444,121,374)              |
| Investment fees   | (56,706)                   | (55,264)                   |
| Net cash (used in) investing activities   | <u>(6,100,400)</u>         | <u>(6,692,658)</u>         |
| <b>Net increase (decrease) in Cash and Cash Equivalents</b>                             | <b>1,455,951</b>           | <b>(104,252)</b>           |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                     | <b>2,283,884</b>           | <b>2,388,136</b>           |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b><u>\$ 3,739,835</u></b> | <b><u>\$ 2,283,884</u></b> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b> |                            |                            |
| Operating income  | \$ 1,021,547               | \$ 856,590                 |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                            |                            |
| Change in:  |                            |                            |
| Interest receivable on loans  | (140,513)                  | 458,218                    |
| Loans receivable, net   | 6,678,273                  | 5,271,118                  |
| Amount due to MoDOT   | (2,956)                    | 2,480                      |
| <b>Net Cash Provided by Operating Activities</b>  | <b><u>\$ 7,556,351</u></b> | <b><u>\$ 6,588,406</u></b> |
| <b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:</b>     |                            |                            |
| Cash and cash equivalents   | \$ 2,837,657               | \$ 1,207,699               |
| Restricted cash and cash equivalents  | 902,178                    | 1,076,185                  |
| <b>Total Cash and Cash Equivalents</b>  | <b><u>\$ 3,739,835</u></b> | <b><u>\$ 2,283,884</u></b> |
| <b>Noncash Items Impacting Recorded Assets:</b>   |                            |                            |
| Increase in fair value of investments   | <u>\$ 831,849</u>          | <u>\$ 1,394,810</u>        |

# Notes to the Financial Statements

---

# Notes to the Financial Statements

## Note 1: Summary of Significant Accounting Policies

The Missouri Transportation Finance Corporation (MTFC) was created by the Missouri Highways and Transportation Commission (the Commission), under Missouri General Not-for-Profit Corporation Law, Chapter 355 of the Revised Statutes of Missouri (RSMo), on August 23, 1996, to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri in conformity with federal transportation laws.

### (A) **Reporting Entity**

The MTFC is a component unit of the State of Missouri. The Commission may impose its will on the MTFC because the Commission has authority to remove any board member for cause. The accompanying basic financial statements include only those operations related to the MTFC.

### (B) **Basis of Accounting**

The MTFC accounts for its activities as a special-purpose government engaged in business-type activities. The accrual basis of accounting is utilized under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. In applying the accrual concept to federal grant revenues/contributions, the legal and contractual requirements of the individual programs are used for guidance.

In reporting its financial activity, the MTFC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Procedure.

### (C) **Cash, Cash Equivalents, and Investments**

Cash and cash equivalents include cash and repurchase agreements. Investments are reported at fair value.

### (D) **Provision for Loan Losses**

The MTFC does not provide for an allowance for uncollectible loans. Management has determined, based on prior experience, that an allowance is not necessary.

### (E) **Net Assets**

Equity is categorized in the statements of net assets as restricted and unrestricted. Restricted net assets are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the MTFC's policy to use restricted resources first for loans to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri. Unrestricted resources are used for operating expenses as needed.

### (F) **Classification of Operating and Nonoperating Revenue**

The MTFC has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, including interest income on loans made to entities as provided by federal transportation laws and charges for services.

**Nonoperating revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including federal, state, and local grants and contracts. Interest earned on deposits and investments is also classified as nonoperating revenue.

#### **(G) Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### **(H) Income Taxes**

The MTFC submitted a request for ruling to the Internal Revenue Service. In response to that request, the IRS ruled the income of the MTFC is excludable from gross income for federal income tax purposes under Section 115 of the Code. The MTFC is required to file an annual income tax return on Form 1120.

### **Note 2: Cash and Investments**

#### **(A) Deposits**

The carrying amounts of cash for the MTFC at June 30, 2008 and 2007 were \$3,739,835 and \$2,283,884, respectively. The bank balances of the MTFC's deposits at June 30, 2008 and 2007 were \$3,739,835 and \$2,283,884, respectively. Of the bank balances, the first \$100,000 was covered by federal depository insurance, and \$3,639,835 and \$2,183,884 as of June 30, 2008 and 2007, respectively, were covered by collateral held by a third-party bank under a joint custody agreement.

#### **(B) Investments**

The MTFC's investments are reported at fair value. At June 30, 2008 and 2007, the MTFC had \$63,737,836 and \$55,264,196, respectively, of unregistered government sponsored securities for which a financial institution's trust department holds the securities in the MTFC's name.

Restricted investments are those set aside for lending purposes. Restricted committed investments are those set aside for executed loans with multiple disbursements where the first disbursement has been made.

#### **(C) Interest Rate Risk**

The MTFC minimizes the risk that the fair value of securities in the portfolio will decline due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The MTFC invests operating funds primarily in government agency securities or similar investment vehicles. The MTFC's investments include options such as callable dates and mortgage payments.

#### **(D) Credit Risk**

Section 355.131, RSMo authorizes the MTFC, with certain restrictions, to deposit funds in open accounts, time deposits, certificates of deposit, commercial paper, repurchase agreements, and United States Treasury bills and notes. Statutes also require collateral pledged to have a fair value equal to 100 percent of the funds on deposit, less insured amounts, and the underlying investments must be assigned for the benefit of the MTFC. Collateral securities must be held by the MTFC or an independent third party and must be of the kind prescribed by state law and approved by the State Treasurer of Missouri.

**(E) Concentration of Credit Risk**

The MTFC diversifies its investments to minimize the risk of loss resulting from over-concentration of assets in specific maturity, issuer, or class of securities. The asset allocation is periodically reviewed.

At June 30, 2008, the MTFC's investments had the following average maturities:

| <u>Investment Type</u>        | <u>Fair Value</u> | <u>Less than<br/>1 year</u> | <u>1-3 years</u> | <u>3-5 years</u> |
|-------------------------------|-------------------|-----------------------------|------------------|------------------|
| Repurchase agreements         | \$ 3,739,835      | \$ 3,739,835                | \$ ---           | \$ ---           |
| Government agency obligations | 63,737,836        | 47,555,738                  | 11,179,248       | 5,002,850        |

**Note 3: Loans Receivable**

Loans receivable as of June 30, 2008 and 2007 consist of the following:

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| MHTC, Highway 63:                       |                     |                     |
| April 7, 2003                           | \$ 166,923          | \$ 6,158,206        |
| Bi-State Development Agency:            |                     |                     |
| July 7, 2000                            | 1,351,837           | 1,996,039           |
| June 15, 2001 and October 15, 2001      | 2,212,030           | 2,860,332           |
| Highway 179 Transportation Corporation: |                     |                     |
| November 1, 2002                        | 5,999,970           | 5,999,985           |
| City of Lexington:                      |                     |                     |
| November 23, 2005                       | 66,163              | 80,784              |
| August 1, 2006                          | 45,122              | 53,664              |
| City of Washington: April 30, 2007      | ---                 | 7,364,451           |
| County of Madison: September 28, 2007   | 1,011,643           | ---                 |
| City of St. Louis: October 20, 2007     | 4,500,000           | ---                 |
| City of Kansas City: December 21, 2007  | 2,000,000           | ---                 |
| City of Warrenton: February 28, 2008    | <u>481,500</u>      | <u>---</u>          |
| <b>Total</b>                            | <b>\$17,835,188</b> | <b>\$24,513,461</b> |

Loans receivable are included in the accompanying statements of net assets, as follows:

|                               | <u>2008</u>         | <u>2007</u>         |
|-------------------------------|---------------------|---------------------|
| Current loans receivable      | \$ 8,072,595        | \$ 7,306,950        |
| Noncurrent loans receivable   | 9,762,593           | 17,206,511          |
| <b>Total loans receivable</b> | <b>\$17,835,188</b> | <b>\$24,513,461</b> |

The Missouri Highways and Transportation Commission loan financed a project with the Highway 63 Transportation Corporation that advanced the acquisition of right-of-way, the relocation of utilities and the construction, construction management, construction inspection, and pavement warranty of two additional lanes to the existing lanes on Highway 63, located between bypasses proposed for the City of Kirksville and the City of Macon. Repayment of the principal and interest is annual and began July 1, 2004. There is one principal payment in the amount of \$166,923 due July 1, 2009. The interest rate is 3.232 percent. The Highway 63 Project is currently the only loan from the MTFC to the Missouri Highways and Transportation Commission.

The Bi-State Development Agency loan provided the local share requirement for Federal Transit Administration (FTA), Congestion Mitigation and Air Quality Improvement Program (CMAQ), and Surface Transportation Program (STP) funded buses. Principal payments varying from \$14,000 to \$60,000 are due monthly following the month of disbursement over the ten-year term of the loan. Interest is paid monthly at the rate of 5.49 percent for the July 7, 2000 portion, and 4.64 percent for the June 15, 2001 and October 15, 2001 portions.

The Highway 179 Transportation Corporation loan financed the acquisition of right-of-way for construction of the extension of Highway 179 (including an interchange and an outer road on Highway 54) from Highway 50 to Route B in the City of Jefferson and the County of Cole. Repayment of the \$6.0 million loan principal is scheduled for August 1, 2008. Interest at a rate of 3.488 percent is paid annually for \$3.0 million and interest at a rate of 3.38 percent is paid annually for the remaining \$3.0 million.

The City of Lexington loans are to finance the rehabilitation of South 24th Street between Highways 24 and 224 and South and Franklin Streets in the city. The projects include wedging and asphalt overlay of approximately 0.94 and 1.3 miles, respectively, of deteriorating asphalt road surface. The loans mature on November 30, 2012 and July 31, 2013, respectively, with interest paid monthly at 3.76 and 3.8 percent. The principal payments vary from \$625 to \$1,400 and are paid monthly.

The City of Washington loan financed the extension of an existing box culvert in coordination with sight improvements for the development at the Phoenix Center and widening Route 100 to five lanes within the city limits of Washington. Repayment of the loan was made on April 23, 2008 with interest paid annually at 3.69 percent.

The Madison County loan is to relocate Route 72 to bypass the City of Fredericktown and Junction City. The loan matures March 1, 2020. Future disbursements of \$2.6 million and \$1.1 million will be made in fiscal years 2009 and 2010, respectively. Principal and interest payments are made annually at an interest rate of 4.2 percent. Principal payments vary from \$109,000 to \$535,000.

The City of St. Louis loan is to finance the construction of the Gateway Transportation Center. Repayment of the loan is scheduled for January 31, 2018 with principal and interest at 4.2 percent paid annually. Principal payments vary from \$329,000 to \$530,000.

The City of Kansas City loan project consists of interchange improvements on Interstate Routes 29 and 35. Future disbursements of \$2.0 million each are scheduled annually for November 19, 2008-2011. The loan matures November 19, 2017, with principal and interest at 4.2 percent paid annually. Principal payments vary from \$249,000 to \$1.5 million.

The City of Warrenton loan accelerates a cost share project to add a left turn lane to southbound Highway 47 and install traffic signals to control the flow of traffic at the intersection of Highway 47 and Warrior Avenue. Principal and interest are paid annually with an interest rate of 3.91 percent. Principal payments vary from \$58,000 to \$300,000, with the final payment due February 28, 2011.

#### **Note 4: Accounts Payable**

Accounts payable represent reimbursements payable for personnel and administrative expenses to the Missouri Department of Transportation (MoDOT.)

#### **Note 5: Restricted Net Assets**

The MTFC received money from federal grants, which are restricted for lending purposes only. The grants required a state transportation funding match, which, with interest earned on investments, is also restricted.

## **Note 6: Risk Management**

The MTFC is exposed to various risks of loss related to asset theft, errors and omissions. The MTFC has purchased commercial insurance to protect MTFC in such an instance.

## **Note 7: Commitments**

On December 15, 2003, the MTFC approved a line-of-credit for the Missouri Highways and Transportation Commission. The maximum amount available in the line-of-credit is the total uncommitted balance of the MTFC accounts. The primary purpose of the line-of-credit is to finance projects that are eligible in conformity with Federal transportation laws in the event of federal reimbursement delays for State Road Fund Projects. The Commission will make a lump-sum repayment of principal and interest three months after the loan is advanced. At June 30, 2008 no advances had been made to the Missouri Highways and Transportation Commission on the line-of-credit.

At June 30, 2008 loan agreements of approximately \$64.3 million have not been executed, therefore the funds have not been disbursed. The details of some loans agreements, including timing of disbursements, have not been finalized with the loan recipients. These commitments consist of the following:

On September 28, 2006, the MTFC approved a \$556,800 loan to the City of Platte City to finance the local portion of a cost-share project to construct improvements at the Route 92 and Marshall/Hampton Roads intersection. The project consists of signal, sight distance, drainage, and geometric improvements. The loan term will be four years and principal and interest will be paid semi-annually beginning six months following loan disbursement. The interest rate for the loan will be 3.62 percent.

On September 28, 2006, the MTFC approved a loan to U.S. Highway 36 – Interstate 72 Corridor – Transportation Development District for \$35 million to finance the local portion of a project to construct improvements to Route 36. This project consists of the construction of approximately 52 miles of two additional lanes on Route 36. The MTFC acknowledged its waiver of policies pertaining to the maximum loan amount and loan term. The loan will have four disbursements contingent upon the project's construction schedule. The principal and interest will be paid in annual payments beginning one year following loan disbursement. The interest rate for the loan will be 3.99 percent for a period up to 15 years.

On February 6, 2007, the MTFC approved a \$10.9 million loan to the City of Columbia to finance the local portion of a cost-share project to construct improvements on Route 740, locally known as Stadium Boulevard. The project consists of widening Route 740 from a five-lane undivided roadway to a six-lane divided roadway. The loan will be for ten years with annual principal and interest beginning the first year following loan disbursement. The interest rate will be 3.92 percent.

On June 21, 2007, the MTFC approved a loan in the amount of \$1.4 million to St. Louis County. The project will provide access to and from the east on I-64 Spirit Boulevard. The interest will be paid in annual payments for three years beginning one year following loan disbursement. Principal will be paid when cost share funds are available for the project in state fiscal year 2011.

On June 21, 2007, the MTFC approved a loan to Kansas City Power and Light in the amount of \$6.2 million. The project is to fund their portion of the construction of bridge and approach improvements to the Route 45 bridge over the Burlington Northern Santa Fe Railroad and the Route 45 bridge over Bear Creek. The interest rate will be 5.15 percent for 10 years. Principal in the amount of \$2,281,862 will be paid when cost share funds are available for the project in state fiscal year 2011. The interest and remaining principal will be paid annually beginning the first year following loan disbursement.

On October 16, 2007, the MTFC approved a loan to American Energy Producers, Incorporated in the amount of \$183,750 to construct right and left turn lanes on Highway 65. The interest rate of the loan will be 4.2 percent for four years with interest paid annually beginning one year following the loan disbursement.

On October 16, 2007, the MTFC approved a loan to St. Louis County in the amount of \$5.1 million to rebuild the I-270 and Dorsett road intersection as a single-point diamond interchange. The interest rate of the loan will be 3.53 percent for four years with principal and interest paid annually beginning one year following the loan disbursement.

On February 5, 2008, the MTFC approved a loan to Crossroads Center Moscow Mills, L.L.C. in the amount of \$5.0 million for the construction of a diamond interchange at the intersection of Route U and Route 61 in Lincoln County. The interest rate of the loan will be 4.5 percent for 10 years with interest only payment due one year after loan disbursement and principal and interest paid annually beginning one year following the completion of the project.

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# Statistical Section

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# Index

## Statistical Section

*These schedules are intended to assist in understanding and assessing the MTFC's performance.*

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*Sources:*

*Unless otherwise stated, information in the following tables is derived from the MTFC's annual financial reports for the years shown.*

# Changes in Net Assets

(amounts in thousands)

|   | <b>Year Ended June 30</b> |                 |                 |
|---|---------------------------|-----------------|-----------------|
|   | <b>2008</b>               | <b>2007</b>     | <b>2006</b>     |
| <b>Operating Revenues</b>               |                           |                 |                 |
| Interest Income on Loans                | \$ 1,064                  | \$ 913          | \$ 1,154        |
| Fee and Charges for Services            | <u>6</u>                  | <u>5</u>        | <u>3</u>        |
| <b>Total Operating Revenues</b>         | <b>1,070</b>              | <b>918</b>      | <b>1,157</b>    |
| <b>Operating Expenses</b>               |                           |                 |                 |
| Personnel                               | 33                        | 45              | 36              |
| Professional Fees                       | 9                         | 8               | 8               |
| Travel and Training                     | 1                         | 4               | 2               |
| Other                                   | <u>5</u>                  | <u>4</u>        | <u>1</u>        |
| <b>Total Operating Expenses</b>         | <b>48</b>                 | <b>61</b>       | <b>47</b>       |
| <b>Operating Income</b>                 | <b>1,022</b>              | <b>857</b>      | <b>1,110</b>    |
| <b>Nonoperating Revenues (Expenses)</b> |                           |                 |                 |
| Interest Income on Deposits             | 114                       | 230             | 401             |
| Investment Earnings                     | 1,513                     | 1,371           | 531             |
| Fair Value of Investments Adjustments   | 832                       | 1,395           | 760             |
| Investment Fees                         | <u>(57)</u>               | <u>(55)</u>     | <u>(28)</u>     |
| <b>Net Nonoperating Revenues</b>        | <b>2,402</b>              | <b>2,941</b>    | <b>1,664</b>    |
| <b>Change in Net Assets</b>             | <b>\$ 3,424</b>           | <b>\$ 3,798</b> | <b>\$ 2,774</b> |

**Year Ended June 30**

| <b><u>2005</u></b> | <b><u>2004</u></b> | <b><u>2003</u></b> | <b><u>2002</u></b> |
|--------------------|--------------------|--------------------|--------------------|
| \$1,262            | \$1,019            | \$ 967             | \$1,231            |
| <u>3</u>           | <u>1</u>           | <u>---</u>         | <u>2</u>           |
| 1,265              | 1,020              | 967                | 1,233              |
| <br>50             | 59                 | 33                 | 31                 |
| 8                  | 10                 | 10                 | 15                 |
| ---                | ---                | ---                | ---                |
| <u>9</u>           | <u>1</u>           | <u>1</u>           | <u>1</u>           |
| 67                 | 70                 | 44                 | 47                 |
| <br>1,198          | 950                | 923                | 1,186              |
| <br>408            | 545                | 672                | 981                |
| 229                | ---                | ---                | ---                |
| 96                 | ---                | ---                | ---                |
| ---                | ---                | ---                | ---                |
| <u>733</u>         | <u>545</u>         | <u>672</u>         | <u>981</u>         |
| <br><u>\$1,931</u> | <u>\$1,495</u>     | <u>\$1,595</u>     | <u>\$2,167</u>     |

## Net Assets

(amounts in thousands)

|              | <b>Year Ended June 30</b> |                 |                 |                 |                 |                 |                 |
|--------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|              | <b>2008</b>               | <b>2007</b>     | <b>2006</b>     | <b>2005</b>     | <b>2004</b>     | <b>2003</b>     | <b>2002</b>     |
| Restricted   | \$76,311                  | \$73,852        | \$70,856        | \$69,164        | \$68,425        | \$67,883        | \$67,184        |
| Unrestricted | <u>9,894</u>              | <u>8,929</u>    | <u>8,127</u>    | <u>7,045</u>    | <u>5,853</u>    | <u>4,900</u>    | <u>4,004</u>    |
|              | <b>\$86,205</b>           | <b>\$82,781</b> | <b>\$78,983</b> | <b>\$76,209</b> | <b>\$74,278</b> | <b>\$72,783</b> | <b>\$71,188</b> |

# **Average Fair Value of Investments and Average Yields on Investments held on behalf of the MTFC**

(amounts in thousands)

| <u>Fiscal Year</u> | <u>Average Monthly<br/>Fair Value<br/>of Investments</u> | <u>Monthly Weighted<br/>Average Yield on<br/>Investments</u> |
|--------------------|--|--|
| 2008               | \$ 52,568  | 4.90%  |
| 2007               | 51,010   | 5.17   |
| 2006*              | 38,942   | 4.08   |

\* Only includes October through June

Source: Financial Institution

## Net Loans Receivable by Fiscal Year

(amounts in thousands)

As of June 30

| <u>Fiscal Year</u> | <u>Net<br/>Loans Receivable</u> | <u>Weighted Average<br/>Interest Rate</u> |
|--------------------|---------------------------------|---|
| 2008               | \$ 17,835                       | 2.88%                                     |
| 2007               | 24,513                          | 3.76                                      |
| 2006               | 29,785                          | 3.60                                      |
| 2005               | 34,958                          | 3.52                                      |
| 2004               | 33,654                          | 3.61                                      |
| 2003               | 32,616                          | 3.51                                      |
| 2002               | 30,281                          | 3.30                                      |

Source: Weighted average interest rate calculated by Missouri Department of Transportation, Resource Management staff

# Demographics and Economic Information

## Employment Sectors – State of Missouri

Years Ended December 31

(amounts in thousands)

|   | 2007             |             |                   | 1998             |             |                   |
|---|------------------|-------------|-------------------|------------------|-------------|-------------------|
|   | <u>Employees</u> | <u>Rank</u> | <u>Percentage</u> | <u>Employees</u> | <u>Rank</u> | <u>Percentage</u> |
| Trade, Transportation, and Utilities        | 549              | 1           | 20%               | 541              | 1           | 20%               |
| Government                                  | 440              | 2           | 16                | 414              | 2           | 15                |
| Education and Health Services               | 384              | 3           | 14                | 330              | 4           | 13                |
| Professional and Business Services          | 338              | 4           | 12                | 301              | 5           | 11                |
| Manufacturing                               | 300              | 5           | 11                | 378              | 3           | 14                |
| Leisure and Hospitality                     | 281              | 6           | 10                | 251              | 6           | 9                 |
| Financial Activities                        | 167              | 7           | 6                 | 156              | 7           | 6                 |
| Construction, Natural Resources, and Mining | 153              | 8           | 5                 | 132              | 8           | 5                 |
| Other Services                              | 121              | 9           | 4                 | 109              | 9           | 4                 |
| Information                                 | 63               | 10          | 2                 | 74               | 10          | 3                 |
| <b>Total</b>                                | <b>2,796</b>     |             | <b>100%</b>       | <b>2,686</b>     |             | <b>100%</b>       |

Source: United States Department of Labor, Bureau of Labor Statistics

| <u>Calendar Year</u> | <u>Population</u> | <u>Personal Income</u> | <u>Per Capita Personal Income</u> | <u>Unemployment Rate</u> |
|----------------------|-------------------|------------------------|-----------------------------------|--------------------------|
| 2007                 | 5,878             | \$198,757,000          | \$34                              | 5.1%                     |
| 2006                 | 5,838             | 188,399,000            | 32                                | 5.2                      |
| 2005                 | 5,788             | 178,036,000            | 31                                | 6.3                      |
| 2004                 | 5,745             | 170,392,000            | 30                                | 5.9                      |
| 2003                 | 5,706             | 164,163,000            | 29                                | 5.9                      |
| 2002                 | 5,676             | 160,014,000            | 28                                | 5.7                      |
| 2001                 | 5,642             | 155,843,000            | 28                                | 4.8                      |
| 2000                 | 5,606             | 149,979,000            | 27                                | 3.2                      |
| 1999                 | 5,468             | 140,867,000            | 26                                | 3.4                      |

## Sources:

Population: United States Department of Commerce, Census Bureau

Personal Income, Per Capita Personal Income, and Unemployment Rate: United States Department of Commerce, Bureau of Economic Analysis

## Approved Loans by Fiscal Year

(amounts in thousands)

| <u>Fiscal Year</u> | <u>Number of<br/>Loans Approved</u> | <u>Total Approved<br/>Loan Amount</u> |
|--------------------|-------------------------------------|---------------------------------------|
| 2008               | 3                                   | \$10,284                              |
| 2007               | 14                                  | 95,781                                |
| 2006               | 2                                   | 8,060                                 |
| 2005               | 2                                   | 897                                   |
| 2004               | 1                                   | 500                                   |
| 2003               | 2                                   | 25,673                                |
| 2002               | 1                                   | 4,000                                 |
| 2001               | 0                                   | ---                                   |
| 2000               | 3                                   | 13,243                                |
| 1999               | 3                                   | 8,209                                 |
| 1998               | 4                                   | 44,900                                |
| 1997               | 1                                   | 2,870                                 |

Source: Missouri Department of Transportation, Resource Management database

# Other Information

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Missouri Transportation Finance Corporation  
Jefferson City, Missouri

We have audited the financial statements of the business-type activities of the Missouri Transportation Finance Corporation (the Corporation), a component unit of the State of Missouri, as of and for the year ended June 30, 2008, which collectively comprise the Corporation's basic financial statements as listed in the accompanying table of contents. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance***

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Williams - Keppens LLC*

August 25, 2008



